2009 ANNUAL REPORT

The Insurance Company of Prince Edward Island

The Insurance Company Of Prince Edward Island

People you know you can trust

Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of The Insurance Company of Prince Edward Island (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Charlie Cooke
President

Don Thompson
Chief Financial Officer

February 18, 2010

Actuary's Report

To the Shareholders of The Insurance Company of Prince Edward Island

I have valued the policy liabilities of The Insurance Company of Prince Edward Island for its statement of financial position at December 31, 2009 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Cara Low

Cara Low
Assistant Vice-President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 18, 2010

Auditors' Report

To the Shareholders of The Insurance Company of Prince Edward Island

We have audited the statement of financial position of The Insurance Company of Prince Edward Island as at December 31, 2009 and the statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

February 18, 2010

Statement of Financial Position

December 31

	2009	2008
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 2,004	$ 2,775
Accounts receivable (note 4)	8,544	7,408
Deferred policy acquisition costs	2,094	1,721
Reinsurers' share of unearned premiums	266	251
Future income taxes (note 11)	269	196
Investments (note 5)	23,015	19,068
Unpaid claims recoverable from reinsurers	1,984	2,695
Property, plant and equipment (note 6)	57	97
	$ 38,233	$ 34,211
Liabilities		
Accounts payable and accrued liabilities	$ 4,488	$ 3,262
Amounts due to reinsurers	137	131
Unearned reinsurance commissions	64	48
Unearned premiums	10,055	8,010
Provision for unpaid claims (note 7)	14,417	14,048
	29,161	25,499
Shareholders' equity		
Share capital (note 8)	4,800	4,800
Retained earnings	4,145	4,076
Accumulated other comprehensive income (loss)	127	(164)
	9,072	8,712
	$ 38,233	$ 34,211

Commitments and contingencies (note 18)
(see accompanying notes)

On behalf of the Board:

Andrew R. Cartmell
Director

Randy Heise
Director

Statement of Operations

year ended December 31	2009	2008
	(thousands of $)	
Gross premiums written	$ 19,142	$ 15,345
Net premiums written	$ 17,909	$ 14,260
Net premiums earned	$ 15,982	$ 12,405
Claims incurred	9,496	6,625
Commissions	3,808	2,960
Administrative expenses	2,891	2,262
Premium taxes	632	505
Facility Association participation (note 17)	(24)	119
Total claims and expenses	16,803	12,471
Underwriting loss	(821)	(66)
Investment earnings (note 10)	1,026	947
Income before income taxes	205	881
Income taxes (note 11)	83	194
Net income	$ 122	$ 687

(see accompanying notes)

Statement of Comprehensive Income

year ended December 31	2009	2008
	(thousands of $)	
Net income	**$ 122**	$ 687
Other comprehensive income (loss), net of income taxes:		
Net unrealized gain (loss) on available for sale financial assets arising during the year	713	(296)
Income tax recovery (expense)	(241)	103
	472	(193)
Reclassification of net realized gains on sale of investments included in net income	(357)	(110)
Reclassification for investment write-downs included in net income	84	–
Income tax expense	92	38
	(181)	(72)
Other comprehensive income (loss)	**291**	(265)
Comprehensive income	**$ 413**	$ 422

(see accompanying notes)

Statement of Changes in Shareholders' Equity

year ended December 31	2009	2008
	(thousands of $)	
Share capital		
Balance, end of year	$ 4,800	$ 4,800
Retained earnings		
Balance, beginning of year	$ 4,076	$ 3,461
Net income	122	687
Dividend (note 8)	(53)	(72)
Balance, end of year	$ 4,145	$ 4,076
Accumulated other comprehensive income (loss)		
Balance, beginning of year	$ (164)	$ 101
Other comprehensive income (loss)	291	(265)
Balance, end of year	$ 127	$ (164)
Total shareholders' equity	$ 9,072	$ 8,712

(see accompanying notes)

Statement of Cash Flows

year ended December 31	2009	2008
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 122	$ 687
Non-cash items:		
Amortization	164	80
Net realized gain on sale of investments	(357)	(110)
Future income taxes	(73)	(49)
Investment write-downs	84	–
Change in non-cash operating items (note 14)	2,700	457
	2,640	1,065
Investing activities		
Purchases of investments	(20,461)	(23,299)
Proceeds on sale of investments	17,103	22,201
Purchases of property, plant and equipment, net of disposals	–	(30)
	(3,358)	(1,128)
Financing activities		
Dividends paid (note 8)	(53)	(72)
Decrease in cash and cash equivalents	(771)	(135)
Cash and cash equivalents, beginning of year	2,775	2,910
Cash and cash equivalents, end of year	$ 2,004	$ 2,775
Supplemental cash flow information:		
Income taxes paid	$ 185	$ 590

(see accompanying notes)

Notes to the Financial Statements

December 31, 2009

1. STATUS OF THE CORPORATION

The Insurance Company of Prince Edward Island (the Corporation) was incorporated under *The Insurance Company of Prince Edward Island Act* on May 14, 1987. The Corporation is licensed to conduct business in Prince Edward Island, New Brunswick and Nova Scotia and holds provincial insurers' licences under the *Insurance Act* (P.E.I.), the *Insurance Act* (New Brunswick) and the *Insurance Act* (Nova Scotia).

The Corporation's automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile insurance premiums represent approximately 71% (2008 – 71%) of the Corporation's net premiums earned.

As a 75%-owned subsidiary of SGI CANADA Insurance Services Ltd., the financial results of the Corporation are included in its consolidated financial results.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles (GAAP). The following are considered to be the Corporation's significant accounting policies:

Changes in Accounting Standards

In June 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to its Financial Instruments – Disclosure standard to expand disclosures of financial instruments consistent with new disclosure requirements made under International Financial Reporting Standards. These amendments were effective for the Corporation commencing January 1, 2009, and introduces a three-level fair value hierarchy that prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The fair values for the three levels are based on:

- Level 1 – quoted prices in active markets.
- Level 2 – models using observable inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

These additional disclosures are included in note 5.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 7), investment valuation (note 5) and income taxes (note 11).

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as held for trading, available for sale, held to maturity, loans and receivables or other financial liabilities. Financial assets or liabilities classified as held for trading are measured at fair value. Those changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. Financial assets or liabilities designated as held to maturity, loans and receivables or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets or liabilities designated as held for trading or held to maturity.

The Corporation has designated its cash and cash equivalents and its investments as available for sale. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities. The unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

Investments

All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures and common shares is determined using quoted market values based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, based on the latest bid prices.

The Corporation records its investment purchases and sales on a trade-date basis, which is the date when the transactions are entered into.

Investment earnings

The Corporation recognizes interest and premium financing revenue as earned, dividends when declared, pooled equity fund revenue when a distribution is declared, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized as of the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write-down.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Unrealized foreign exchange gains and/or losses arising on investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums

Premiums written are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims at the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the asset is placed in service, over the estimated useful lives of the assets as follows:

Leasehold improvements	5 years
Computer hardware and other equipment	3-5 years

Future accounting policy changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. In September 2009, the Public Sector Accounting Board (PSAB) approved an amendment to the introduction to the Public Sector Accounting Handbook that requires any Government Business Enterprise (GBE) to adopt IFRS. The Corporation falls into the category of a GBE and is proceeding with the adoption of IFRS.

The Corporation's parent, SGI CANADA, commenced an IFRS conversion project in 2008 for it and its subsidiaries to assess the potential impacts of the transition and developed a detailed project plan to ensure compliance with the new standards. The conversion project is progressing according to the project plan. At this time, the impact on the Corporation's future financial position and results of operations is not reasonably determinable.

3. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2009	2008
Money market investments	$ –	$ 259
Cash on hand, net of outstanding cheques	2,004	2,516
Total cash and cash equivalents	$ 2,004	$ 2,775

The average effective interest rate on money market investments is nil (2008 – 1.7%).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2009	2008
Due from insureds	$ 3,960	$ 2,819
Facility Association (note 17)	2,272	2,172
Due from broker	1,304	1,240
Investment proceeds receivable	812	–
Accrued investment income	101	127
Due from reinsurers	49	419
Other	46	25
Income taxes	–	606
Total accounts receivable	$ 8,544	$ 7,408

Included in due from insureds is $3,881,000 (2008 – $2,765,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings over the period of the policy.

5. INVESTMENTS

The carrying values of the Corporation's investments are as follows:

	(thousands of $)	
	2009	2008
Short-term investments	$ 671	$ 1,678
Bonds and debentures	19,567	15,128
Canadian common shares	420	337
Pooled equity funds:		
Canadian	1,459	1,112
United States	466	455
Non-North American	432	358
Total investments	$ 23,015	$ 19,068

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year, but greater than 90 days, from the date of acquisition. These investments have an average effective interest rate of 0.3% (2008 – 1.9%) and an average remaining term to maturity of 80 days (2008 – 92 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers and all securities must be in Canadian dollars.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2009		2008	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ –	–	$ 406	4.5%
After one through five	9,686	3.5%	5,491	3.7%
Canadian provincial and municipal:				
One or less	–	–	473	5.0%
After one through five	2,491	4.6%	2,149	5.7%
After five	63	8.5%	65	8.5%
Canadian corporate:				
One or less	620	4.6%	417	4.8%
After one through five	5,413	4.6%	4,941	5.0%
After five	1,294	4.8%	1,186	4.5%
Total bonds and debentures	$ 19,567		$ 15,128	

Canadian common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 5.9% (2008 – 6.5%).

Pooled equity funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds that have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Unrealized loss positions

The following table presents available for sale investments with unrealized losses where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income.

(thousands of $)

	2009		2008	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Bonds and debentures:				
Federal	$ 5,183	$ (19)	$ 623	$ (4)
Provincial and municipal	1,342	(15)	–	–
Corporate	1,131	(2)	2,992	(75)
Canadian common shares	–	–	61	(20)
Pooled equity funds:				
Canadian	1,458	(111)	1,112	(455)
United States	–	–	456	(85)
Non-North American	432	(82)	358	(143)
	$ 9,546	$ (229)	$ 5,602	$ (782)

As at December 31, 2009, the cost of 15 (2008 – 21) available for sale investments exceeded their fair value by $229,000 (2008 – $782,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For Canadian common shares and pooled equity funds, unrealized losses are primarily the result of investment-specific business environment factors associated with the underlying equity investments.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery. During the year, investment write-downs of $84,000 (2008 – $nil) (note 10) were recorded related to impairment of the U.S. pooled equity fund that was considered other than temporary.

Determination of fair value

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation. All of the investments held by the Corporation are measured at fair value using quoted market prices, which is the highest level of reliability of fair value.

6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as related amortization, is as follows:

	(thousands of $)			
	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold improvements	$ 92	$ 48	$ 44	$ 62
Computer hardware and other equipment	116	103	13	35
Total	$ 208	$ 151	$ 57	$ 97

Amortization for the year is $40,000 (2008 – $34,000) and is included in administrative expenses on the Statement of Operations.

7. PROVISION FOR UNPAID CLAIMS

Nature of unpaid claims

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and, therefore, estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

Factors used to estimate the provision include the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $)	
	2009	2008
Net unpaid claims, beginning of year	$ 11,353	$ 11,682
Payments made during the year relating to:		
Prior year claims	(1,738)	(1,642)
Prior year Facility Association claims	(296)	(272)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(3,371)	(3,135)
Prior year estimated unpaid Facility Association claims	169	373
Net unpaid for claims of prior years	6,117	7,006
Provision for claims occurring in the current year	5,966	4,100
Provision for Facility Association claims occurring in the current year	350	247
Net unpaid claims, end of year	$ 12,433	$ 11,353

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

Type of unpaid claims

The provision for unpaid claims is summarized by line of business as follows:

	(thousands of $)					
	2009			2008		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Auto	$ 8,714	$ 1,550	$ 7,164	$ 8,931	$ 1,804	$ 7,127
Property	1,990	89	1,901	1,232	32	1,200
Liability	2,033	345	1,688	2,448	859	1,589
Facility Association (note 17)	1,680	–	1,680	1,437	–	1,437
Total	$ 14,417	$ 1,984	$ 12,433	$ 14,048	$ 2,695	$ 11,353

8. SHARE CAPITAL

Authorized:

30,000,000 common shares with no par value.

6,000 class A, Series 1 preferred shares with a par value of $100 per share, cumulative dividend paid as determined by the Board of Directors at a rate equal to the five-year Government of Canada bond rate plus 1% per annum adjusted pro rata if redemption takes place prior to the annual anniversary date of issuance. The Corporation may redeem the shares in whole or part at any time for $100 per share. There are no retraction rights.

10,000 class A, Series 2 preferred shares with a par value of $100 per share, cumulative dividend paid as determined by the Board of Directors at a rate equal to the five-year Government of Canada bond rate plus 1% per annum adjusted pro rata if redemption takes place prior to the annual anniversary date of issuance. The Corporation may redeem the shares in whole or part at any time for $100 per share. There are no retraction rights.

2,484,000 class A, Series 3 preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

5,000 class B, Series 2 preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

2,495,000 class B, preferred shares with a par value of $100 per share, no set dividend rate, retraction or redemption rights.

	(thousands of $)	
Issued and fully paid:	**2009**	2008
3,000,000 common shares	$ 3,000	$ 3,000
4,000 Class A preferred shares, series 1	400	400
10,000 Class A preferred shares, series 2	1,000	1,000
4,000 Class B preferred shares, series 2	400	400
Total share capital	$ 4,800	$ 4,800

The following summarizes dividends by share classification:

	(thousands of $)			
	2009		2008	
	Dividends in Arrears	Dividends Paid	Dividends in Arrears	Dividends Paid
Class A preferred shares, series 1	$ 13	$ 15	$ 15	$ 21
Class A preferred shares, series 2	34	38	38	51
	$ 47	$ 53	$ 53	$ 72

9. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2009	2008
General liability and property	$ 250	$ 250
Automobile – liability	250	250
Catastrophe – automobile physical damage	500	500
Catastrophe – other	500	500

The following table sets out the amount by which reinsurance ceded has reduced (increased) the premiums earned, claims incurred, commissions and premium taxes:

	(thousands of $)	
	2009	2008
Premiums earned	$ 1,219	$ 1,014
Claims incurred	65	(122)
Commissions and premium taxes	81	73

10. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2009	2008
Interest	$ 590	$ 715
Net realized gain on sale of investments	357	110
Premium financing	154	84
Pooled equity fund distributions	48	78
Dividends	16	13
Investment write-downs	(84)	–
Total investment earnings	$ 1,081	$ 1,000
Investment expenses	55	53
Net investment earnings	$ 1,026	$ 947

Investment write-downs by category are as follows:

	(thousands of $)	
	2009	2008
U.S. pooled equity fund	$ (84)	$ –

11. INCOME TAXES

The Corporation's provision for (recovery of) income taxes is as follows:

	(thousands of $)	
	2009	2008
Current	$ 156	$ 243
Future	(73)	(49)
Total income taxes	$ 83	$ 194

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	(thousands of $)	
	2009	2008
Income before income taxes	$ 205	$ 881
Combined federal and provincial tax rate	33.84%	34.78%
Computed tax expense based on combined rate	$ 69	$ 306
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(15)	(130)
Non-deductible expenses	10	11
Changes in enacted tax rates	15	–
Other	4	7
Total income taxes	$ 83	$ 194

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	(thousands of $)	
	2009	2008
Future income tax assets		
Provision for unpaid claims	$ 324	$ 283
Other	12	10
Total future income tax assets	336	293
Future income tax liabilities		
Investments	34	51
Unpaid claims recoverable from reinsurers	33	46
Total future income tax liabilities	67	97
Net future income tax assets	$ 269	$ 196

12. FINANCIAL RISK MANAGEMENT

The nature of the Corporation's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio, regarding quality and quantity of investments using a prudent person approach. The asset mix guidelines help reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed at December 31, 2009, is limited to the carrying value of the financial assets recognized as follows:

	(thousands of $)	
	2009	2008
Cash and cash equivalents	$ 2,004	$ 2,775
Accounts receivable	8,544	7,408
Fixed income investments[1]	20,238	16,806
Unpaid claims recoverable from reinsurers	1,984	2,695

[1] Includes short-term investments and bonds and debentures

Cash and cash equivalents include cash on hand, net of outstanding cheques of $2,004,000 (2008 – money market investments of $259,000 plus cash on hand, net of outstanding cheques of $2,516,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential and commercial, along with amounts owing from the Facility Association (note 17) and from brokers. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2009	2008
Current	$ 8,514	$ 7,238
30-59 days	31	90
60-89 days	8	–
Greater than 90 days	31	100
Subtotal	8,584	7,428
Allowance for doubtful accounts	(40)	(20)
Total	$ 8,544	$ 7,408

Provisions for credit losses are maintained in an allowance account and regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	(thousands of $)	
	2009	2008
Allowance for doubtful accounts, opening balance	$ 20	$ 6
Accounts written off	(8)	(4)
Current period provision	28	18
Allowance for doubtful accounts, ending balance	$ 40	$ 20

Credit risk within investments is related primarily to short-term investments and bonds and debentures. It is managed through the investment policy that limits fixed income investments to those of high credit quality (minimum rating for bonds and debentures is BBB and for short-term investments is R-1), along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bonds and debentures are as follows:

	(thousands of $)			
	2009		2008	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 10,869	55.5%	$ 7,234	47.8%
AA	3,444	17.6%	3,670	24.3%
A	4,285	21.9%	3,876	25.6%
BBB	969	5.0%	348	2.3%
Total	$ 19,567	100.0%	$ 15,128	100.0%

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No single holding of a province is over 20% of the market value of the bond portfolio.

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by A.M. Best.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments and bonds and debentures. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by $604,000 at December 31, 2009 (2008 – $410,000), representing 3.0% of the $20,238,000 (2008 – 2.4%, $16,806,000) fair value of fixed income investments.

Foreign exchange

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. pooled equity fund, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to Europe, Australasia and Far East (EAFE) currencies through its investment in the non-North American pooled equity fund. Exposure to both the U.S. equity and non-North American equity markets is limited to a maximum 4% each of the market value of the total investment portfolio. At December 31, 2009, the Corporation's exposure to U.S. equities, through its U.S. pooled equity fund, was 2.0% (2008 – 2.4%) and its exposure to non-North American equities, through its non-North American pooled equity fund, was 1.9% (2008 – 1.9%).

At December 31, 2009, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $47,000 (2008 – $46,000) decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $43,000 (2008 – $36,000) decrease/increase in other comprehensive income and accumulated other comprehensive income. As the U.S. pooled equity fund and the non-North American pooled equity fund are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, is not considered material to the operations of the Corporation.

Equity prices

The Corporation is exposed to changes in equity prices in Canadian, U.S. and non-North American equity markets. Equities comprise 12.1% (2008 – 11.9%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

Asset Class	2009	2008
Canadian pooled equity fund and Canadian common shares	$ +/- 721,000	$ +/- 530,000
U.S. pooled equity fund	+/- 116,000	+/- 108,000
Non-North American pooled equity fund	+/- 148,000	+/- 109,000

The Corporation's equity investments are classified as available for sale and, as such, any unrealized changes in their fair value are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

Liquidity risk

Liquidity risk is the risk the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, and due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities.

The following summarizes the contractual maturities of the Corporation's financial liabilities at December 31:

(thousands of $)	2009					
	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 4,488	$ 4,467	$ 21	$ –	$ –	$ –
Amounts due to reinsurers	137	137	–	–	–	–
Provision for unpaid claims	14,417	2,991	1,922	2,836	4,891	1,777
	$ 19,042	$ 7,595	$ 1,943	$2,836	$4,891	$1,777

(thousands of $)	2008					
	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 3,262	$ 3,262	$ –	$ –	$ –	$ –
Amounts due to reinsurers	131	128	3	–	–	–
Provision for unpaid claims	14,048	2,635	1,964	3,097	4,924	1,428
	$ 17,441	$ 6,025	$ 1,967	$ 3,097	$ 4,924	$ 1,428

13. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital is to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholders. Its main sources of capital are retained earnings and share capital. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Corporation is a regulated insurer and, as such, is subject to rate regulation related to its automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT ratio based on the risk profile of the insurer and its insurance business, generally at or above 150%. At December 31, 2009, the Corporation's MCT was 269% (2008 – 297%). There have been no changes to the Corporation's capital management processes and measures since the prior year-end.

14. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2009	2008
Accounts receivable	$ (1,136)	$ (1,041)
Deferred policy acquisition costs	(373)	(358)
Reinsurers' share of unearned premiums	(15)	(71)
Unpaid claims recoverable from reinsurers	711	577
Accounts payable and accrued liabilities	1,077	323
Amounts due to reinsurers	6	–
Unearned reinsurance commissions	16	12
Unearned premiums	2,045	1,921
Provision for unpaid claims	369	(906)
	$ 2,700	$ 457

15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties). Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions and amounts outstanding at year-end are as follows:

	(thousands of $)	
Category	**2009**	2008
Accounts receivable	$ 1	$ 1
Investments	311	256
Investment earnings	10	13

The Corporation has direct premiums brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claims adjusting fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder, who is a member of the Corporation's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

In 2007, the Corporation provided CCIA a $450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of $75,000 and require CCIA to maintain minimum premium limits. At December 31, 2009, the loan is recorded at its amortized cost of $268,000 (2008 – $326,000), calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. During the year, $75,000 (2008 – $75,000) was repaid and interest revenue of $17,000 (2008 – $20,000) was recorded through investment earnings.

Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC at year-end are as follows:

	(thousands of $)	
Category	2009	2008
Accounts receivable	$ 946	$ 978
Accounts payable and accrued liabilities	1,131	842
Premiums written	11,320	10,737
Claims incurred	624	522
Commissions	2,659	2,468
Premiums financed	4,653	3,841

SGI CANADA, the Corporation's ultimate majority shareholder, provides administrative services to the Corporation as well as being one of its reinsurers (note 9). Administrative expenses charged to the Corporation were $936,000 (2008 – $676,000). Reinsurance ceded to SGI CANADA has reduced premiums earned by $665,000 (2008 – $545,000) and increased claims incurred by $42,000 (2008 – $62,000).

One of the Corporation's directors is the owner of an organization that provided professional services to the Corporation. During the current year, these services amounted to $nil (2008 – $16,000).

16. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities, other than investments (note 5), provision for unpaid claims and unpaid claims recoverable from reinsurers (notes 7 and 9), approximate carrying value due to their immediate or short-term nature.

17. FACILITY ASSOCIATION PARTICIPATION

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2009	2008
Gross premiums written	$ 1,123	$ 756
Net premiums earned	$ 1,018	$ 761
Claims incurred	737	740
Commissions	80	70
Premium taxes	35	26
Administrative expenses	224	134
Total claims and expenses	1,076	970
Underwriting loss	(58)	(209)
Investment earnings	82	90
Net income (loss)	$ 24	$ (119)
Facility Association receivable	$ 2,272	$ 2,172
Unearned premiums	354	239
Provision for unpaid claims	1,680	1,437
Facility Association payable	1,980	1,980

18. COMMITMENTS AND CONTINGENCIES

The Corporation has a lease for its office premises expiring September 30, 2011, at an annual rent of $81,600.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

19. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2008 balances have been reclassified to conform to 2009 financial statement presentation.

The Insurance Company
Of Prince Edward Island

People you know you can trust